Media Release

Full-year results 2018/19:
Significant acceleration in sales and profits in the second half

Stäfa (Switzerland), May 21, 2019 – Sonova Holding AG, a leading provider of hearing solutions, today reports the results for the 2018/19 financial year, with all three businesses contributing to a solid financial performance. Sales reached CHF 2,763 million, an increase of 4.4% in Swiss francs or 4.1% in local currencies. Organic growth stood at 4.9% in local currencies, accelerating to 7.0% in the second half, driven by the successful introduction of Phonak Marvel in November 2018. Adjusted Group EBITA reached CHF 594.0 million, an increase of 7.7% in Swiss francs and 6.7% in local currencies. As a result, the adjusted EBITA margin expanded to 21.5%. For the 2019/20 financial year, Sonova expects continued solid growth in sales and profitability, driven by an innovative portfolio of solutions and by further advances in commercial execution and operational efficiency.

Highlights

- Group sales of CHF 2,763.2 million – up 4.4% in Swiss francs and 4.1% in local currencies
- Adjusted EBITA of CHF 594.0 million – up 7.7% in Swiss francs and 6.7% in local currencies
- Hearing instruments segment – sales of CHF 2,524.8 million, up 3.9% in local currencies
- Cochlear implants segment – sales of CHF 238.4 million, up 6.3% in local currencies
- Adjusted EPS of CHF 7.11 – up 11.7% in Swiss francs
- Operating free cash flow reached CHF 411.8 million
- Proposed dividend of CHF 2.90 per share – increase of 11.5%, normalized payout ratio of 41%
- Outlook for FY 2019/20 – sales growth of 6%-8%; growth in adjusted EBITA of 9%-13%, all in local currencies

Arnd Kaldowski, CEO of Sonova, says: “With the successful launch of Phonak Marvel, delivering the highest level of hearing performance, Sonova reinforced its position as an innovation leader. The product was excellently received by our customers and enabled a substantial acceleration in organic growth in the hearing instruments business in the second half of the business year. At the same time, we made good progress in sales execution in our audiological care business, after the successful integration of AudioNova. I am confident that we are strongly positioned for further profitable growth.”
Sales driven by organic growth – Momentum accelerating
In the 2018/19 financial year Sonova Group sales reached CHF 2,763.2 million, an increase of 4.4% in Swiss francs. In local currencies, sales increased by 4.1%, representing an organic growth of 4.9%, while the net impact of acquisitions and divestments reduced growth by 0.8%. Disposals consisted of the sale of the US hearing service plan business as well as the streamlining of the US store network. Exchange rate fluctuations had a small positive impact, and contributed 0.3% to the reported growth in Swiss francs, due to the strength of the Euro and US dollar.

Sales driven by strong performance in the EMEA region
Europe, Middle East and Africa (EMEA), the Group’s largest region, achieved a strong increase in sales of 8.3% in local currencies. This was driven by the successful introduction of Phonak Marvel in November 2018, generating double-digit growth in the hearing instruments business since the launch, in particular in Germany and France. The audiological care business in the region grew by mid-single digits and benefited from strengthened operational execution after the AudioNova acquisition and the completion of streamlining activities in the Netherlands. Sales in the cochlear implants business were mainly driven by strong upgrade sales. The EMEA share of Group sales increased from 53% in 2017/18 to 55% in the period under review.

As a result of previously announced divestments, sales in the United States declined by 3.7% in local currency but were up 2.3% excluding these divestitures. In the hearing instruments business, the successful introduction of Phonak Marvel to independent customers and a next generation Phonak Brio product at Costco drove strong growth in their respective channels in the second half. Sales to the US Department of Veterans Affairs (VA) declined ahead of the upcoming launch of Phonak Marvel in this channel in May 2019. The streamlining and strategic repositioning of the audiological care store network was completed mid-year and sales on a same-store basis accelerated strongly compared to the prior year. Following the launch of the HiRes™ Ultra 3D implant in September, growth in the cochlear implants business accelerated. The region accounted for 27% of Group sales in 2018/19, versus 28% in the prior year. The rest of the Americas (excluding the US) posted a 2.7% sales increase in local currencies; this reflects, in the cochlear implants business, reduced tender activity compared to the previous year in Latin America and, in the hearing instruments business, pricing pressures in the public channel affecting sales in Canada.

Sales in the Asia/Pacific (APAC) region rose by 5.4% in local currencies, with both the hearing instruments and the audiological care business growing in the high single digits. Geographically, results were mixed, with a double digit growth in New Zealand compensating for weaker growth in Australia, Japan, and China. This was partly due to lower demand ahead of the upcoming Phonak Marvel launch in China and Japan. Sales in the cochlear implants business grew in the high teens excluding the impact of lower deliveries under central government tenders in China.

Solid margin development
Reported gross profit reached CHF 1,966.2 million. This included restructuring costs of CHF 8.8 million for the streamlining of operations in the UK, Germany, and Canada. Adjusted for these costs, gross profit reached CHF 1,975.1 million, an increase of 5.7% in Swiss Francs and 5.3% in local currencies. The adjusted gross profit margin was 71.5%, up from 70.6% in the prior year. The improvement was driven by an increased share of the audiological care business, overall higher unit volumes, and a rise in average sales price (ASP) in the hearing instruments business during the second half year. In the cochlear implants segment, the gross margin improved significantly due to manufacturing cost improvements, the higher ASP of the new HiRes Ultra 3D implant, and a reduction in deliveries under lower margin China central government tenders.

Excluding acquisition-related amortization, operating expenses were CHF 1,383.7 million (2017/18: CHF 1,335.7 million). These included restructuring costs of CHF 2.6 million (2017/18: AudioNova integration costs of CHF 19.2 million). In the following, we refer to the operating expenses adjusted for these items. Adjusted operating expenses before acquisition-related amortization rose by 4.9% in Swiss francs or by 4.7% in local currencies to CHF 1,381.1 million, reflecting the sales growth and continued investment in research and development, sales, and marketing.
Adjusted research and development (R&D) expenses before acquisition-related amortization were CHF 147.8 million, an increase of 3.2% in local currencies, underpinning Sonova’s continued commitment to innovation. Technology developments in the field of eSolutions, wireless connectivity, rechargeability, and audiological performance again represented an important share of R&D efforts. R&D spending as a percentage of sales was stable at 5.4%.

Adjusted sales and marketing costs before acquisition-related amortization were up 4.2% in local currencies to CHF 969.1 million. The increase reflects continued investment in expanding the audiological care store footprint and expansion of the sales force in the hearing instruments and cochlear implants businesses.

Adjusted general and administrative costs increased by 6.0% in local currencies to CHF 268.6 million, representing 9.7% of sales, up from 9.5% in the prior year. The increase includes patent litigation cost in the cochlear implants business and investment in a new integrated IT platform for our audiological care business; together, these account for more than half of the increase.

Other income for the current period was CHF 4.4 million, down from CHF 7.2 million in the prior year. The bulk of this income related to a provision release for cochlear implant product liabilities that resulted from better-than-expected development in related claims. Within the cochlear implants business, this provision release was broadly offset by the above mentioned litigation cost.

Adjusted operating profit before acquisition-related amortization (EBITA) was CHF 594.0 million (2017/18: CHF 551.6 million), an increase of 7.7% in Swiss francs or 6.7% in local currencies. The adjusted EBITA margin rose to 21.5% (2017/18: 20.8%), mainly reflecting the solid gross margin development. The reported EBITA increased by 9.4% in Swiss francs or 8.4% in local currencies to CHF 582.5 million, corresponding to a margin of 21.1%. Acquisition-related amortization amounted to CHF 46.3 million (2017/18: CHF 49.5 million). Reported operating profit (EBIT) reached CHF 536.2 million (2017/18: CHF 483.0 million), up by 11.0%.

Double-digit increase in earnings per share
Reflecting the growth in EBIT, basic earnings per share (EPS) reached CHF 6.98 (2017/18: CHF 6.13), a significant increase of 13.9% from the prior year. The adjusted EPS increased 11.7% to CHF 7.11. Net financial expenses, including the result from associates, increased from CHF 4.0 million to CHF 6.6 million. The effective tax rate was 13.1% (2017/18: 14.9%); the lower tax rate reflects the completed integration of AudioNova. Income after taxes was CHF 460.2 million (2017/18: CHF 407.4 million).

Headcount
The Group’s total workforce at the end of the 2018/19 financial year was 14,740 full-time equivalents, an increase of 498 due to an increase in manufacturing capacity in Asia as well as customer facing staff in the audiological care and hearing instruments business. The expected reduction of the workforce by about 250 employees resulting from the restructuring program announced in March 2019 is not yet reflected in the year-end workforce number. Good progress was made in directing new hires to lower-cost locations.

Hearing instruments segment – New products and improved execution driving growth
Sales in the hearing instruments segment grew by 4.2% in Swiss francs and 3.9% in local currencies to CHF 2,524.8 million. Organic growth was 4.8%, while the contribution from acquisitions in the reporting period and the full-year effect of prior year acquisitions was 1.0%. Growth was reduced by 1.8% through the previously mentioned disposals. Exchange rate fluctuations, primarily a stronger Euro and US dollar, contributed 0.3% to growth in Swiss francs.
After a more moderate start to the year, the hearing instruments business, which includes sales to independent audiologists, retail chains, multinational and government customers, but excludes our own audiological care business, had an excellent last four months of the year following the launch of the Phonak Marvel platform in November 2018. Sales reached CHF 1,474.7 million, an increase of 2.0% in local currencies. Organic growth was 4.5%, in part offset by the disposal of the US hearing service plan business, reducing sales by 2.5%. Both Europe and Asia/Pacific achieved high single digit growth rates. The performance in the United States was held back by the upcoming product transition in the government channel (VA).

The audiological care business increased sales by 6.7% in local currencies to CHF 1,050.1 million; the increase was driven by organic growth of 5.2% along with bolt-on acquisitions, and partially offset by the disposal of a number of stores in the US. Many of the key markets, including Germany, New Zealand, Canada, and Italy, achieved above market growth rates. The streamlining and strategic repositioning of the business in the US and the Netherlands were successfully completed and the growth momentum in both countries accelerated significantly on a same store basis. France exhibited a slow-down in the second half of the year as a result of a reimbursement change in 2019 and the general economic environment. The roll-out is underway of a new integrated IT platform enabling better lead generation, consumer database management and store front and back office processes. This roll-out is global and will take three years to complete.

Reported EBITA for the hearing instruments segment amounted to CHF 563.1 million, up 7.1% in local currencies. The adjusted EBITA increased by 5.4% in local currencies to CHF 574.6 million, corresponding to an EBITA margin of 22.8% (2017/18: 22.3%). The segment achieved strong margin expansion through the sale of the low margin US hearing service plan business, tight cost controls, and a positive product and business mix.

**Cochlear implants segment – Growth driven by new product introductions**

The cochlear implants segment achieved sales of CHF 238.4 million, up 7.0% in Swiss francs and 6.3% in local currencies. The business achieved double-digit growth adjusted for the decreased level of sales under government tenders. Systems sales grew in high single digits, supported by the successful launch of the HiRes Ultra 3D implant. Upgrade revenue growth was moderate at 2.4% against a challenging prior year comparison, particularly in the US, but accelerated in the second half. The segment also benefited from an improved position in the private market in China resulting from the roll-out of the Naida CI processor.

Improved pricing, driven by a better business mix and new product introductions, as well as by structural and productivity improvements, led to a step-up in profitability. The effects of increased litigation costs and a provision release for product liabilities broadly offset each other. EBITA for the year was CHF 19.7 million versus CHF 11.9 million in the prior year, resulting in a margin of 8.2% (2017/18: 5.3%).

**Stable cash flow**

Cash flow from operating activities was CHF 533.2 million, compared to CHF 523.4 million in the prior year; higher profitability was offset by adverse changes in working capital and higher income tax payments. The accelerated growth of the hearing instruments business in the second half led to higher receivables and inventory balances.

Net investments in tangible and intangible assets increased to CHF 117.3 million from CHF 95.5 million in the prior year, mainly as a result of investments in site expansion in the hearing instruments business, as well as in IT systems and store improvements in the audiological care business. This resulted in an operating free cash flow of CHF 411.8 million, down by 1.8%. Cash consideration for acquisitions net of disposals amounted to CHF 64.9 million, compared to 59.2 million in the prior year. In summary, this resulted in a free cash flow of CHF 346.9 million, compared to CHF 360.0 million in the prior year.
Cash outflow from financing activities was CHF 522.1 million, compared to CHF 186.2 million in the prior year. This reflects the repayment of a bond of CHF 150.0 million, which was part of the financing of the AudioNova acquisition, and net share repurchases of CHF 194.6 million, mainly related to the share buyback program. Cash outflow from financing also includes dividend payments of CHF 169.8 million.

**Balance sheet remains strong**

Reported net working capital was CHF 163.0 million, compared to CHF 190.5 million at the end of the prior year. This reflects higher current liabilities in the amount of CHF 77.6 million related to the implementation of IFRS 15, partly offset by higher inventory and receivables due to the accelerated growth of the hearing instruments business in the last quarter of the year. The implementation of IFRS 15 reduced both the capital employed and the company’s equity position by CHF 127.2 million. Capital employed was CHF 2,630.0 million, a slight reduction from CHF 2,702.9 million in the prior year. The Group’s equity position amounted to CHF 2,376.1 million, down from CHF 2,474.9 million in the previous year, partly as a result of the share buyback program, resulting in a solid equity ratio of 55.4%. The net debt position stood at CHF 253.9 million, compared to CHF 228.0 million at the end of the prior year. The return on capital employed (ROCE) increased to 20.6% from 18.4% in the prior year. Excluding the impact of the implementation of IFRS 15, the ROCE increased to 19.6%.

In light of the solid profitable growth and a healthy financial position, the Board of Directors will propose a dividend of CHF 2.90 to the Annual General Shareholders’ Meeting on June 13, 2019. This proposed distribution is up 11.5% over the prior year, and represents a stable adjusted payout ratio of 41% (reported: 42%).

**Outlook 2019/20**

The global hearing care market offers both general and specific opportunities for continued growth. Our strategy is tuned to capture these benefits while delivering further advances in commercial excellence and operational efficiency. We therefore expect consolidated sales to increase by 6-8% and adjusted EBITA to grow in the range of 9-13% in 2019/20, both measured in local currencies.

Our online Annual Report 2018/19 is available at:  

The Annual Report 2018/19 is available on our website at:  

The presentation of the Full-Year Results 2018/19 can be downloaded at:  

– End –
Key Figures Sonova Group (consolidated)

April 1 to March 31, in CHF million unless otherwise specified

<table>
<thead>
<tr>
<th></th>
<th>2018/19</th>
<th>2017/18</th>
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<tbody>
<tr>
<td>Sales</td>
<td>2,763.2</td>
<td>2,645.9</td>
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<tr>
<td>change compared to previous year (%)</td>
<td>4.4</td>
<td>10.4</td>
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<td>Gross profit</td>
<td>1,966.2</td>
<td>1,868.2</td>
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<tr>
<td>in % of sales</td>
<td>71.2</td>
<td>70.6</td>
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<tr>
<td>Gross profit (adjusted)&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1,975.1</td>
<td>1,868.2</td>
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<tr>
<td>in % of sales</td>
<td>71.5</td>
<td>70.6</td>
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<tr>
<td>Research &amp; development costs</td>
<td>168.4</td>
<td>142.9</td>
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<tr>
<td>in % of sales</td>
<td>5.4</td>
<td>5.4</td>
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<tr>
<td>Sales &amp; marketing costs</td>
<td>970.3</td>
<td>936.5</td>
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<tr>
<td>in % of sales</td>
<td>35.1</td>
<td>35.3</td>
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<tr>
<td>Operating profit before acquisition-related amortization (EBITDA)</td>
<td>582.5</td>
<td>532.5</td>
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<tr>
<td>in % of sales</td>
<td>21.1</td>
<td>20.1</td>
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<tr>
<td>Operating profit before acquisition-related amortization (EBITDA) (adjusted)&lt;sup&gt;2&lt;/sup&gt;</td>
<td>594.0</td>
<td>551.6</td>
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<tr>
<td>in % of sales</td>
<td>21.5</td>
<td>20.8</td>
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<tr>
<td>Operating profit (EBIT)</td>
<td>536.2</td>
<td>483.0</td>
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<td>in % of sales</td>
<td>19.4</td>
<td>18.3</td>
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<tr>
<td>Income after taxes</td>
<td>460.2</td>
<td>407.4</td>
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<tr>
<td>in % of sales</td>
<td>16.7</td>
<td>15.4</td>
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<tr>
<td>Basic earnings per share (CHF)</td>
<td>6.98</td>
<td>6.13</td>
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<tr>
<td>Basic earnings per share (CHF) (adjusted)&lt;sup&gt;2&lt;/sup&gt;</td>
<td>7.11</td>
<td>6.36</td>
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<tr>
<td>Dividend / distribution per share (CHF)</td>
<td>2.90&lt;sup&gt;10&lt;/sup&gt;</td>
<td>2.60</td>
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<tr>
<td>Net cash/(debt)&lt;sup&gt;4&lt;/sup&gt;</td>
<td>(253.9)</td>
<td>(228.0)</td>
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<tr>
<td>Net working capital&lt;sup&gt;5&lt;/sup&gt;</td>
<td>163.0</td>
<td>190.5</td>
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<tr>
<td>Capital expenditure (tangible and intangible assets)&lt;sup&gt;6&lt;/sup&gt;</td>
<td>117.9</td>
<td>96.3</td>
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<tr>
<td>Capital employed&lt;sup&gt;7&lt;/sup&gt;</td>
<td>2,630.0</td>
<td>2,702.9</td>
</tr>
<tr>
<td>Total assets</td>
<td>4,292.5</td>
<td>4,302.0</td>
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<tr>
<td>Equity</td>
<td>2,376.1</td>
<td>2,476.9</td>
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<tr>
<td>Equity financing ratio (%)&lt;sup&gt;8&lt;/sup&gt;</td>
<td>55.4</td>
<td>57.5</td>
</tr>
<tr>
<td>Free cash flow&lt;sup&gt;9&lt;/sup&gt;</td>
<td>366.9</td>
<td>360.0</td>
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<tr>
<td>Operating free cash flow&lt;sup&gt;10&lt;/sup&gt;</td>
<td>411.8</td>
<td>419.2</td>
</tr>
<tr>
<td>in % of sales</td>
<td>14.9</td>
<td>15.8</td>
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<tr>
<td>Return on capital employed (%)&lt;sup&gt;11&lt;/sup&gt;</td>
<td>20.6</td>
<td>18.4</td>
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<tr>
<td>Number of employees (average)</td>
<td>14,418</td>
<td>14,073</td>
</tr>
<tr>
<td>Number of employees (end of period)</td>
<td>14,740</td>
<td>14,242</td>
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</table>

<sup>1</sup> Excluding restructuring costs of CHF 8.8 million in 2018/19 to optimize local operations in selected markets.
<sup>2</sup> Excluding restructuring costs of CHF 11.5 million in 2018/19 to optimize local operations in selected markets and integration costs of CHF 19.2 million in 2017/18 in connection with the acquisition of AudioNova.
<sup>3</sup> Excluding the effects (incl. tax impact) from the restructuring costs in 2018/19 as well as the one-time effects in connection with the acquisition of AudioNova in 2017/18.
<sup>4</sup> Cash and cash equivalents + other current financial assets (without loans) - current financial liabilities - non-current financial liabilities.
<sup>6</sup> Excluding goodwill and intangibles relating to acquisitions.
<sup>7</sup> Equity / net cash/(debt).
<sup>8</sup> Equity in % of total assets.
<sup>9</sup> Cash flow from operating activities + cash flow from investing activities.
<sup>10</sup> Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired / divested.
<sup>11</sup> EBIT in % of capital employed (average).
<sup>12</sup> Proposal to the Annual General Shareholders’ Meeting of June 13, 2019.
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About Sonova
Sonova, headquartered in Stäfa, Switzerland, is a leading provider of innovative hearing care solutions. The Group operates through its core business brands Phonak, Unitron, Hansaton, Advanced Bionics and AudioNova. Sonova offers its customers one of the most comprehensive product portfolios in the industry – from hearing instruments to cochlear implants to wireless communication solutions.

Pursuing a unique vertically integrated business strategy, the Group operates through three core businesses – hearing instruments, audiological care and cochlear implants – along the entire value chain of the hearing care market. The Group’s sales and distribution network, the widest in the industry, comprises over 50 own wholesale companies and more than 100 independent distributors. This is complemented by Sonova’s audiological care business, which offers professional audiological services through a network of around 3,500 locations in 18 key markets.

Founded in 1947, the Group has a workforce of over 14,000 dedicated employees and generated sales of CHF 2.76 billion in the financial year 2018/19 as well as a net profit of CHF 460 million. Across all businesses, and by supporting the Hear the World Foundation, Sonova pursues its vision of a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.


Sonova shares (ticker symbol: SOON, Security no: 1254978, ISIN: CH0012549785) have been listed on the SIX Swiss Exchange since 1994. The securities of Sonova have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”), or under the applicable securities laws of any state of the United States of America, and may not be offered or sold in the United States of America except pursuant to an exemption from the registration requirements under the U.S. Securities Act and in compliance with applicable state securities laws, or outside the United States of America to non-U.S. Persons in reliance on Regulation S under the U.S. Securities Act.